Sub

Canadian Export Gas & Oil Ltd.

Annual Report April 30, 1970

ANNUAL
REPORT
1970

HEAD OFFICE
736 - 8th AVENUE S.W.
CALGARY 2, ALBERTA

DIRECTORS

AUGUST F. BECK, *Calgary*
President and General Manager of the Company

F. R. BURTON, *Toronto*
President and a Director of Alminex Limited

JOHN DRYBROUGH, *Winnipeg*
Chairman of the Board of Newmont Mining Corporation of Canada Limited

FRANCIS KERNAN, *New York*
A partner of White, Weld & Co.

PLATO MALOZEMOFF, *New York*
Chairman of the Board, President and a Director of Newmont Mining Corporation

MILTON H. MANDEL, *New York*
An Attorney-at-Law

FRANCIS E. RINEHART, *New York*
Counsel, Newmont Mining Corporation

FRANZ SCHNEIDER, *New York*
Financial Consultant

H. W. TRIPP, *New York*
Vice-President for Finance and Chairman of the Investment Committee of the University of Rochester

OFFICERS

AUGUST F. BECK, *President and General Manager*
PAUL C. EVANS, *Vice-President — Production*
W. P. HANCOCK, *Vice-President — Exploration*
DEREK N. WALKER, *Secretary-Treasurer*
FRANCIS E. RINEHART, *Assistant Secretary*

SUBSIDIARIES

CANEX GAS LTD.
CEGO MINERALS LTD.
NORTH DAKOTA ROYALTIES LTD.

SHARES LISTED

AMERICAN STOCK EXCHANGE, *New York*
MIDWEST STOCK EXCHANGE, *Chicago*
THE TORONTO STOCK EXCHANGE

TRANSFER AGENTS

CROWN TRUST COMPANY, *Calgary and Toronto*
HARRIS TRUST AND SAVINGS BANK, *Chicago*
BANKERS TRUST COMPANY, *New York*

REGISTRARS

CROWN TRUST COMPANY, *Calgary and Toronto*
AMERICAN NATIONAL BANK AND TRUST COMPANY, *Chicago*
THE BANK OF NEW YORK, *New York*

AUDITORS

PEAT, MARWICK, MITCHELL & CO., *Calgary*

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HIGHLIGHTS

		1969-70	1968-69
PRODUCTION (Net after royalties):			
Oil Production—Annual	Barrels	486,192	440,729
—Daily Average	Barrels	1,332	1,207
Gas Production—Annual	Billion Cubic Feet	6.779	6.946
—Daily Average	Million Cubic Feet	19	19
Sulphur Production—Annual	Long Tons	3,855	2,992
—Daily Average	Long Tons	11	8

	1969-70	1968-69
EARNINGS:		
Gross operating income less royalties paid:		
Crude oil sales	$1,218,000	1,111,000
Natural gas sales	$1,093,000	1,083,000
Royalty income	$ 161,000	175,000
Sulphur sales	$ 20,000	51,000
	$2,492,000	2,420,000
Cash flow from operations	$1,237,000	1,244,000
Per share	15¢	15¢
Net earnings before extraordinary item	$ 202,000	396,000
Per share	2¢	5¢
Net earnings	$ 398,000	396,000
Per share	5¢	5¢

	1969-70	1968-69
EXPLORATION ACTIVITY:		
Exploratory wells drilled (gross):		
Oil	2*	2
Gas	1*	3
Dry	11	12
	14	17
Expenditure on land acquisition and exploratory surveys	$ 706,000	1,469,000

* Includes one suspended well

TO THE SHAREHOLDERS:

Highlights of the past year include —

- Continued successful development drilling in the Strachan gas field in preparation for the scheduled delivery of gas to Trans-Canada Pipe Lines by December 15, 1970. (See pages 6 and 9.)
- The discovery of oil by Imperial Oil at Atkinson Point in the Mackenzie Delta-Beaufort Sea area, 25 to 35 miles from CEGO acreage. (See page 7.)
- A Devonian oil discovery in the Meekwap area in Alberta on a CEGO block of 960 acres. (See page 6.)
- The acquisition of an interest in a substantial block of acreage in the deep basin foothills gas belt area of Alberta. (See pages 6 and 8.)
- The acquisition of extensive acreage interests off the east coasts of Labrador and Nova Scotia, and in the Northwest Territories. (See pages 7 and 8.)

Financial

Gross operating income of $2,492,000 was 3% higher than last year and cash flow was essentially the same at $1,237,000 compared with $1,244,000 in 1968-69. Net earnings were $398,000 compared with $396,000 in 1969. The current year's earnings include a gain on sale of property of $196,000.

Drilling

During the year the Company participated in the drilling of 21 wells of which seven were development and 14 were exploratory. The drilling resulted in six successful development wells, of which four were gas and two oil. One successful exploratory oil well was drilled. Six of the 21 holes were drilled at no cash outlay to the Company.

Production

Oil production increased approximately 10% in the past year. Gas production was 2% lower than the previous year.

The Strachan gas plant, originally scheduled to come on stream November 1, 1970, is now expected to begin operation December 15 due to delays in delivery of equipment. It is designed to process 250 million cubic feet of raw gas per day. The Company's 6¼% interest will provide a significant new source of income.

General

The past year has witnessed a rather paradoxical combination of developments affecting the oil and gas industry in Canada. A continually increasing demand for industry products in the United States is countered with a lowering of import quotas from Canada. The discovery of oil in the Mackenzie Delta, emphasizing the tremendous potential of this area, together with the increased pace of activity in all of northern Canada, makes evident the need for very large amounts of capital required to search for, develop and move the oil and gas to areas of demand. This capital need has been confronted by the Benson White Paper on Taxation Reform, which with its punitive and restrictive provisions, can only act as a deterrent to the availability of the required capital. Radical segments of a society newly conscious of pollution would have a postponement of northern development rather than allowing the petroleum industry and the government to seek solutions by which development and practical environmental control can both be achieved. Success in the deep plains and foothills gas potential areas of Alberta gives evidence of industry's capability to supply a gas hungry market, both in Canada and the United States. Political and nationalistic overtones, however, needlessly delay export approvals, which in turn, hinder further exploration and development.

A more rational and less emotional approach by the government would recognize that industry should be encouraged in its search for and development of oil and gas of the potential magnitude so far indicated. The derived benefits would help provide a sound economic basis for the country's ambitious and expensive welfare programs, in addition to maintaining a high standard of living.

The tremendous amount of risk capital required for such development could be lost to Canada unless realistic, rather than restrictive legislation is enacted.

The management, on behalf of the Board, again wishes to thank all the employees and shareholders for their cooperation and loyalty, without which the success of the Company would be impossible.

On behalf of the Board,

A. F. Beck

A. F. BECK,
President

May 12, 1970

Net Gas Production by Fields

(After Royalties)

	(Billion Cubic Feet)				
	1970	1969	1968	1967	1966
Steveville	1.690	2.065	2.115	2.124	3.000
Bindloss	2.157	1.731	1.706	1.769	1.742
Hilda	1.644	1.703	1.395	1.501	1.500
Sedalia	0.397	0.392	0.348	0.398	0.422
Wood River	0.244	0.348	0.276	0.277	0.239
Atlee-Buffalo-Jenner	0.199	0.287	0.289	0.321	0.337
Ghost Pine	0.195	0.160	0.071	—	—
Countess Duchess	0.085	0.104	0.109	0.118	0.128
East Crossfield D-1	0.098	0.070	0.019	—	—
Braeburn (Saddle Hills)	0.026	0.047	0.097	0.218	0.211
Crossfield-Turner Valley	0.044	0.039	0.038	0.026	0.022
Ontario	—	—	0.099	0.115	0.114
Other Areas	—	—	—	—	0.140
	6.779	6.946	6.562	6.867	7.945

Net Oil Production by Fields

(After Royalties)

	(Net Barrels)				
	1970	1969	1968	1967	1966
Virden-Roselea, Man.	172,152	161,962	148,192	150,444	108,147
Florence-Carnduff, Sask.	64,580	71,352	79,479	90,964	103,055
Swan Hills, Alberta	88,088	70,140	57,734	28,378	1,258
Big Valley, Alberta	37,722	30,681	35,704	29,859	25,214
Crossfield, Alberta	22,025	30,635	37,947	36,682	52,792
Virginia Hills, Alberta	24,294	22,753	17,823	9,865	11,371
Northgate, Sask.	10,926	14,923	22,536	30,840	49,929
Manyberries, Alberta	9,754	10,798	12,483	12,575	13,924
Wood River, Alberta	4,750	5,532	6,178	7,011	7,459
Browning-Willmar, Sask.	5,705	4,308	11,211	13,553	13,976
Swalwell, Alberta	2,080	1,710	2,295	1,909	2,490
Willey, Ontario	—	—	5,195	8,967	8,276
Zama-Virgo	11,581	—	—	—	—
Other Areas	32,535	15,935	6,252	4,643	5,992
	486,192	440,729	443,029	425,690	403,883

GAS PRODUCTION

CEGO's net gas production for the past year decreased slightly from 6.946 billion cubic feet to 6.779 billion cubic feet. The decrease in production is attributed to the shutting down of the Braeburn field due to uneconomic production and a decline in the production rate from the Steveville and Wood River fields.

Four gas development wells were drilled and completed. Two of these wells were in Strachan where the Company now has an interest in five successful gas wells. Two successful wells were drilled in the Bindloss field.

At Strachan a contract has been entered into for the construction of a plant with a capacity of 250 million cubic feet of raw gas per day. The cost of the plant and gathering system is now estimated at $21 million. The contractor commenced field work on February 23, 1970 and completion is now scheduled for December 15, 1970. At the minimum rate of 200 million cubic feet of raw gas per day, the yield of the plant is 165 million cubic feet of residue sales gas, 4,200 barrels of pentanes plus, and 680 long tons of sulphur per day. CEGO has 6¼% interest in the entire project.

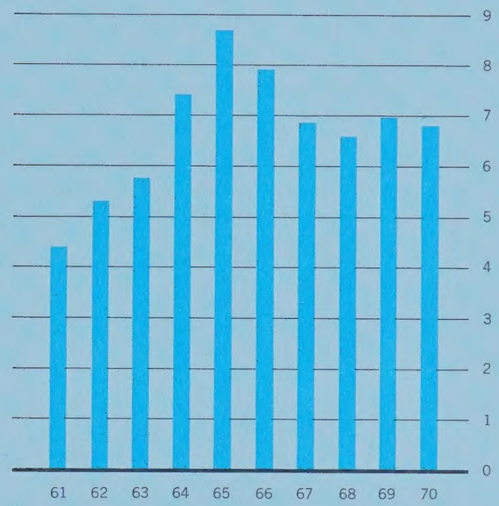
Two additional compressors were installed in the Bindloss gas field to increase deliverability by at least 16%.

OIL PRODUCTION

During the past year CEGO's net oil production was 486,192 barrels compared to 440,729 barrels last year or an increase of 10%. Two successful development wells were drilled during the year — Zama (15-1-117-5 W6) and Swan Hills (4-3-68-11 W5). A farmout well was drilled and abandoned in the Virden field in Manitoba, at no cash outlay to the Company.

Net Gas Production

BILLIONS OF CUBIC FEET



Net Oil Production

HUNDREDS OF THOUSANDS OF BARRELS

EXPLORATION

Meekwap Area, Alberta (see map page 8)
An oil discovery on Company interest land in this area, Twp. 66, Rge. 15 W 5M was completed near the end of the winter drilling season. Production is from an interval in the upper section of the Devonian. This well was drilled at no cash outlay to the Company, under an option agreement covering 480 acres in which CEGO's residual interest is 11%. A 22% interest is held on an adjoining 480 acres.

Further development is planned when the area becomes accessible.

Strachan Area, Alberta (see map page 9)
In addition to the two successful development gas wells, as mentioned on page 5, the Company participated in three exploratory tests completing obligatory requirements on joint interest lands in this area. These wells, located two and one half to six miles from the area of development around the initial gas discovery, failed to find production and two of them were abandoned. The third test has been suspended.

A well completed by another operator, six miles southwest of the initial discovery area, found a new gas pool. This well offsets the west-centre portion of Company interest acreage in this area. Geophysical surveys have been expanded to assist in the evaluation of this discovery relative to Company lands and possible future drilling.

Whitecourt Area, Alberta
Four wells were drilled on Company interest acreage in this area, two at no cash outlay to the Company. All were dry and abandoned.

Other Areas — Alberta
In northern Alberta two wells were drilled and abandoned in the Steen River and Wood Buffalo areas. Some additional seismic work was undertaken in the Rapids area.

In the Virgo area a parcel of Company interest land was farmed out in return for drilling a Keg River test. The well is presently suspended after obtaining some oil.

A Viking zone test was drilled at no cash outlay to the Company on acreage in the Kinakin area southeast of Judy Creek. The well was dry and abandoned.

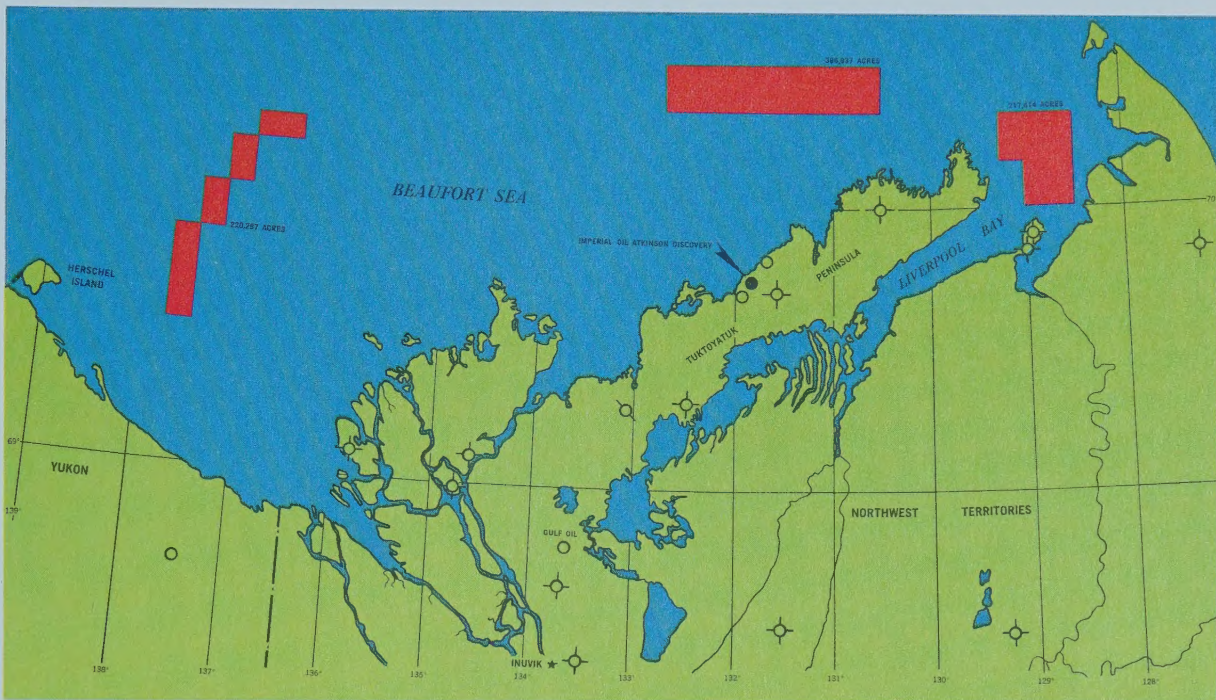
In the deep basin foothills area of Alberta the Company acquired a 12½% interest in 140,000 acres of P & NG rights. An initial program of 80 miles of seismic has been completed over this acreage.

British Columbia
A limited seismic program was carried out on option acreage, southwest of the Clark Lake gas producing area. Further exploration and drilling will be dependent upon results of this initial survey.

A follow-up to the Flatrock gas discovery of the previous year was dry and abandoned. CEGO had a 4% interest in this project.

Mackenzie Delta-Beaufort Sea, N.W.T. (see map page 7)
The discovery of oil at the Imperial Oil Atkinson Point location on the coast of the Beaufort Sea, in early 1970, gives strong evidence of the tremendous potential of this area. Two subsequent wells drilled on "separate geological configurations" from the discovery well have been abandoned. These wells were six miles southeast and 35 miles northeast of the discovery. Two new locations are being drilled by Imperial approximately 2½ and 7½ miles from the discovery. CEGO has a 50% working interest in 824,000 acres offshore in this area. A 250 mile marine seismic program is scheduled for the coming summer, covering the permits in Liverpool Bay.

This work will be tied to the block of permits to the northwest where the Company has some seismic coverage, and to the Atkinson Point discovery.



BEAUFORT SEA AREA

■ CEGO 50% INTEREST IN 824,638 ACRES

SCALE 0 10 20 30 60 MILES

○ LOCATION/DRILLING
-◇- DRY & ABANDONED
● OILWELL
SUSPENDED

Trout Lake-Fort Simpson Area, N.W.T.
The plains portion of the Western Canada Sedimentary basin occupying the southern Northwest Territories received considerable industry attention during the last winter work season.

South of Trout Lake near the N.W.T.-B.C. boundary a limited seismic program was undertaken and one well was drilled and abandoned. Further options under this agreement, if exercised, will earn the Company a 12½% interest in 74,946 acres.

Seismic surveys were carried out on three additional areas north and northwest of Trout Lake. Drilling as required will be undertaken on these projects during the next winter work season. Completion of these programs will earn the Company varying interests in 210,538 acres.

Great Bear Lake Area, N.W.T.
The Company has a one-third interest in 861,351 acres of permits filed on in Great Bear Lake.

The group of which CEGO is a member, plans a marine seismic survey covering the western portion of the lake this coming summer.

Hudson Bay, N.W.T.
A 50% interest in CEGO's 2,052,000 acres in Hudson Bay has been sold to a major oil company for a cash consideration and an undertaking to carry the costs of the first three years work obligations. The well drilled by another operator in the Bay last summer did not reach projected total depth prior to termination of the drilling season for this area.

MINERAL EXPLORATION

Artillery Lake, N.W.T.
An option was granted to a mining company for geological and geophysical studies on CEGO mineral claims. After completing an extensive survey the company elected not to continue its option.

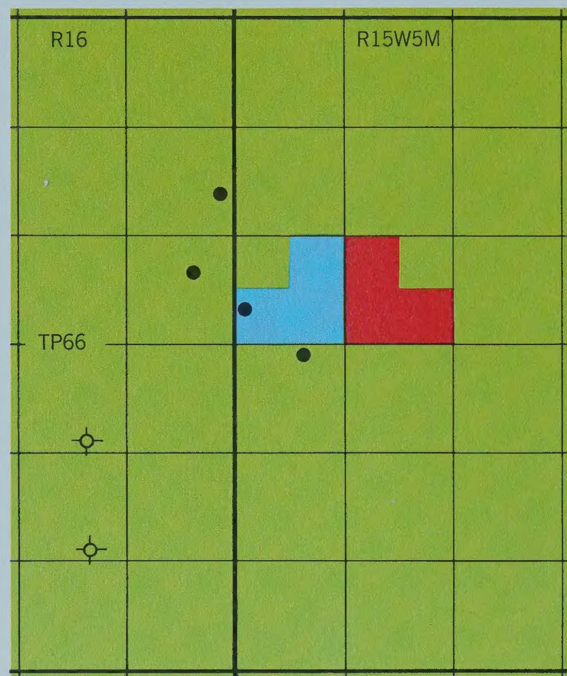
Baker Lake, N.W.T.
Airborne geophysical surveys were carried out over the properties in this area last summer. From these results anomalous areas have been selected for retention and ground study this coming summer.

LAND

Land acquisitions were made in 1969-70 totalling approximately 2,300,000 gross acres out of which the Company nets in excess of 800,000 acres. The principal acquisitions are:

- A half interest in 951,167 permit acres was purchased off the Labrador and Nova Scotia coasts.
- A one third interest in 861,351 permit acres was acquired in the Great Bear Lake area east of Norman Wells, N.W.T.
- Upon completion of the exploratory programs in the Trout Lake-Fort Simpson area, N.W.T., the Company will earn varying interest in 285,484 gross acres for a net of 33,518 acres. In addition a 5% interest in 31,082 acres was purchased in this area.
- A 12½% interest in 140,576 reservation acres was acquired in the Nose Creek area of the Alberta foothills.

Conversion of reservation acreage in Northwest Alberta into lease form, and sale of 50% of the Company's Hudson Bay acreage (about 1 million acres) constitutes the main areas of acreage reduction during the year.



MEEKWAP AREA
Central Alberta

CEGO 11.11% CEGO 22.22%

SCALE 0 1 2 3 MILES

● OILWELL ABANDONED

LAND AND ROYALTY HOLDINGS

As at April 30, 1970

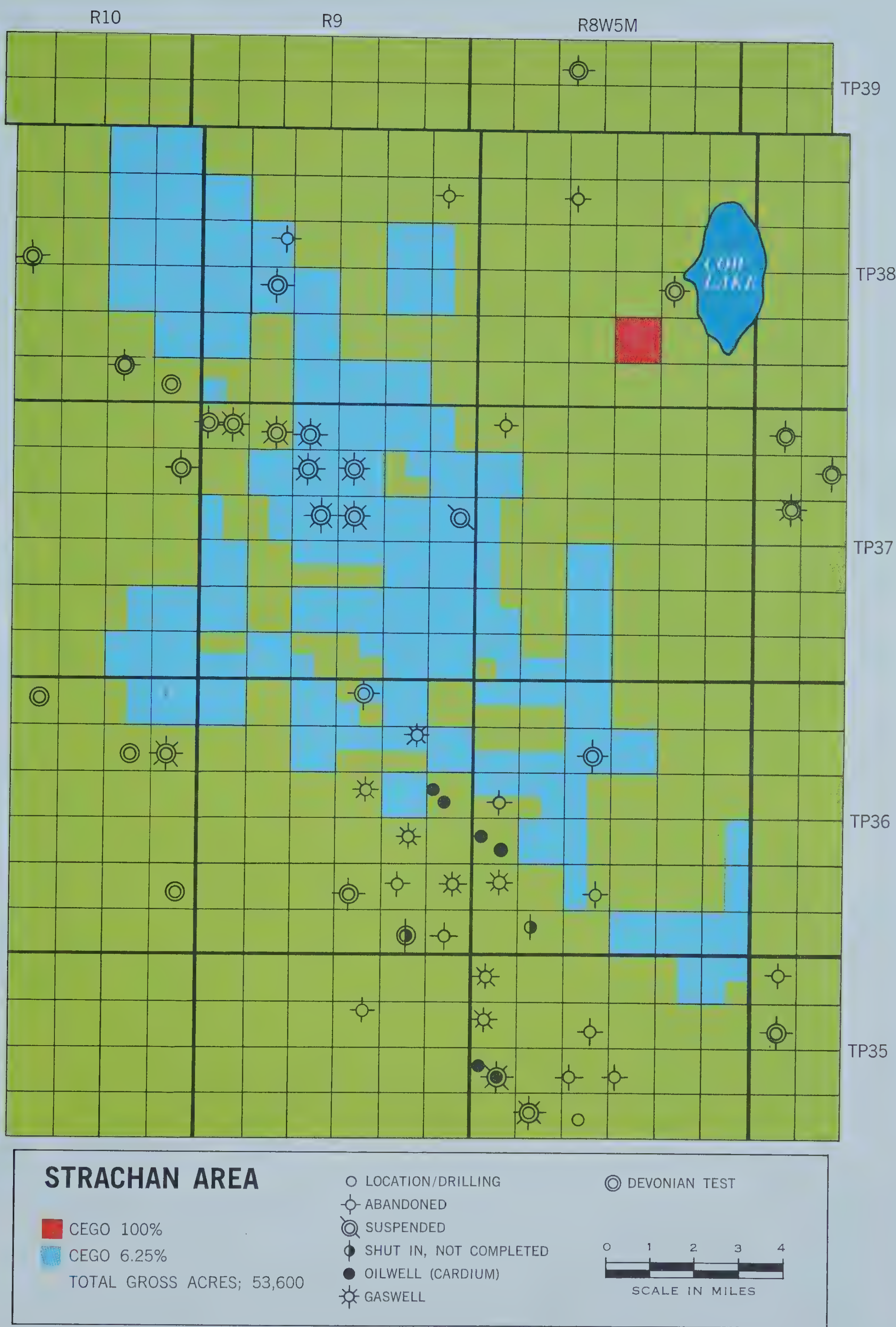
	Gross	Net
Alberta	1,398,865	443,198
Saskatchewan	11,622	8,809
Manitoba	1,370	1,370
British Columbia . . .	22,478	5,024
East Coast	951,167	475,583
Northwest Territories .	1,177,917	322,189
Beaufort Sea	824,638	412,319
Hudson Bay	2,052,430	1,026,215
	6,440,487	2,694,707

MINING PROPERTIES

	Gross	Net
Artillery Lake	4,545	4,545
General Keewatin Area	85,500	28,499
	90,045	33,044

ROYALTY INTERESTS

	Gross	Royalty Interest
Alberta	640	15%
	12,475	Varying Interests
Total Alberta . .	13,115	
Saskatchewan . .	165,381	2½%
	6,600	Varying Interests
	12,360	Mineral Titles
Total Saskatchewan	184,341	
Manitoba	800	5%
	2,963	Varying Interests
	4,410	½ Mineral Titles
Total Manitoba . .	8,173	
Northwest Territories . . .	84,549	0.34%
Total Royalty and Mineral Interests	290,178	


R10
R9
R8W5M
TP39
TP38
TP37
TP36
TP35
STRACHAN AREA
CEGO 100%
CEGO 6.25%
TOTAL GROSS ACRES; 53,600
LOCATION/DRILLING
ABANDONED
SUSPENDED
SHUT IN, NOT COMPLETED
OILWELL (CARDIUM)
GASWELL
DEVONIAN TEST
0 1 2 3 4
SCALE IN MILES


BEAUFORT SEA
ALASKA
YUKON TERRITORY
BEAUFORT SEA
412,319 Net Acres
(See Map Page 7)
GT. BEAR LAKE
287,117 Net Acres
BAKER LAKE
28,500 Net Acres
(Prospecting Permits)
NORTHWEST
TERRITORIES
FT. SIMPSON TROUT LAKE
35,072 Net Acres
BRITISH COLUMBIA
NOSE CREEK
17,572 Net Acres
ALBERTA
SASKATCHEWAN
MANITOBA
MEEKWAP
(See Map Page 8)
Edmonton
Calgary
Vancouver
STRACHAN
(See Map Page 9)
Regina
Winnipeg
PACIFIC OCEAN
UNITED STATES

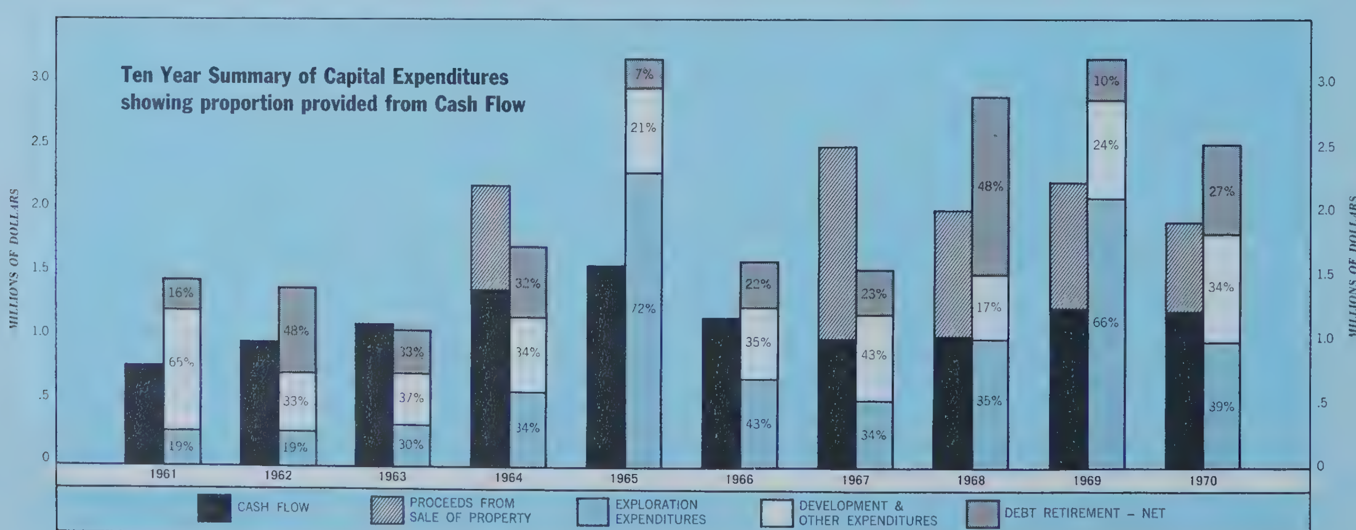

CANADIAN EXPORT GAS & OIL LTD.
LAND HOLDINGS
GROSS ACRES
6,530,532
NET ACRES
2,727,751
HUDSON BAY
1,026,215 Net Acres
HUDSON BAY
LABRADOR
320,475 Net Acres
NEWFOUNDLAND
QUEBEC
ONTARIO
P.E.I.
NEW BRUNSWICK
NOVA SCOTIA
Halifax
NOVA SCOTIA
155,108 Net Acres
Montreal

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

Year ended April 30, 1970
(with comparative figures for 1969)

		1970		1969
SOURCE OF FUNDS:				
Cash flow from operations (Net earnings plus provisions, bond discount, dry holes and abandoned properties less gain on sale of property)		$1,237,000		1,244,000
Proceeds from sale of properties		700,000		1,000,000
Proceeds from sale of capital stock		102,000		522,000
Reservation deposits refunded		135,000		–
Proceeds from sale of subsidiary		–		176,000
Reduction of working capital		361,000		230,000
TOTAL FUNDS EMPLOYED		$2,535,000		3,172,000
DISPOSITION OF FUNDS:				
Exploration:				
Land acquisition and exploration surveys	28%	$ 706,000	46%	1,469,000
Wildcat and stepout drilling	11	287,000	14	435,000
Increase in reservation deposits	–	–	6	192,000
Development and Other Expenditures:				
Drilling and equipment of wells	23	577,000	12	371,000
Gas gathering systems, plants and miscellaneous (net)	11	267,000	12	370,000
FUNDS INVESTED IN THE COMPANY	73	1,837,000	90	2,837,000
Long-term Debt Reduction:				
Companies' sinking fund debentures	13	342,000	8	254,000
Bank loans	14	356,000	2	81,000
TOTAL FUNDS USED	100%	$2,535,000	100%	3,172,000

See accompanying notes to financial statements.



CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

Year ended April 30, 1970
(with comparative figures for 1969)

		1970	1969
OPERATING INCOME:			
Crude oil and natural gas sales, less royalties		$2,311,000	2,194,000
Royalty income		161,000	175,000
Sulphur sales		20,000	51,000
		2,492,000	2,420,000
Less production expenses		599,000	540,000
		1,893,000	1,880,000
Deduct administrative and general expenses, net		278,000	253,000
Net operating profit before the following		1,615,000	1,627,000
OTHER CHARGES, NET:			
Share transfer and other shareholder expenses	$ 98,000		73,000
Acreage rentals on non-producing properties	186,000		221,000
Interest on debentures	29,000		39,000
Interest, other	95,000		95,000
Amortization of bond discount	10,000		10,000
Dry holes and abandoned properties	469,000		318,000
	887,000		756,000
Deduct miscellaneous income	30,000		46,000
		857,000	710,000
Net earnings before the following provisions		758,000	917,000
PROVISIONS:			
Depletion and amortization	312,000		275,000
Depreciation	244,000		246,000
		556,000	521,000
Net earnings before extraordinary item		202,000	396,000
EXTRAORDINARY ITEM:			
Gain on sale of property		196,000	–
Net earnings (Note 6)		398,000	396,000
RETAINED EARNINGS at beginning of year		5,119,000	4,528,000
ADJUSTMENT resulting from sale of subsidiary company		–	195,000
RETAINED EARNINGS at end of year		$5,517,000	5,119,000
Earnings per share (Note 7):			
Earnings before extraordinary item		$ .02	.05
Earnings for the year		$ .05	.05

See accompanying notes to financial statements.

CONSOLIDATED BALANCE SHEET

April 30, 1970

(with comparative figures for 1969)

Assets

		1970	1969
CURRENT ASSETS:			
Cash		$ 172,000	89,000
Marketable securities, at cost (quoted market value $194,000; 1969, $80,000)		174,000	49,000
Accounts receivable		1,316,000	2,029,000
Inventories of equipment, at the lower of cost or net realizable value		41,000	54,000
Total current assets		1,703,000	2,221,000
ACCOUNT RECEIVABLE not due within one year		–	500,000
REFUNDABLE DEPOSITS AND INVESTMENTS, at cost (Note 1)		315,000	450,000
FIXED ASSETS, at cost:			
Productive properties and equipment	$13,878,000		12,204,000
Other assets	115,000		108,000
	13,993,000		12,312,000
Less accumulated depreciation, depletion and amortization	6,256,000		5,784,000
	7,737,000		6,528,000
Undeveloped properties	3,726,000		4,096,000
		11,463,000	10,624,000
DEFERRED CHARGES (unamortized):			
Exploration and preproduction expenditures (Note 1)	1,600,000		1,631,000
Bond discount	8,000		18,000
		1,608,000	1,649,000
		$15,089,000	15,444,000

See accompanying notes to financial statements.

Liabilities

		1970	1969
CURRENT LIABILITIES:			
Accounts payable and accrued expenses		$ 886,000	731,000
Accrued debenture interest		9,000	13,000
Payments required for debenture sinking funds (Note 3)		278,000	161,000
Bank loans due within one year (secured) (Note 2)		356,000	681,000
6% Notes payable due within one year (secured)		–	100,000
Total current liabilities		1,529,000	1,686,000
BANK LOANS, net of current portion (secured) (Note 2)		142,000	498,000
FUNDED DEBT (Note 3)		111,000	453,000
SHAREHOLDERS' EQUITY:			
Capital stock (Notes 3 and 4):			
Shares of a par value of 16⅔ cents each. Authorized 12,000,000 shares; issued 8,166,677 shares (1969, 8,141,944 shares)	$1,361,000		1,357,000
Contributed surplus	6,429,000		6,331,000
	7,790,000		7,688,000
Retained earnings	5,517,000		5,119,000
		13,307,000	12,807,000
		$15,089,000	15,444,000

Approved on behalf of the Board:

AUGUST F. BECK, Director

FRANCIS E. RINEHART, Director

NOTES TO FINANCIAL STATEMENTS

April 30, 1970

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of all of the company's subsidiaries as at April 30, 1970. All inter-company accounts and transactions have been eliminated in consolidation.

In settlement of current advances the company has received from a former subsidiary, Bluewater Oil & Gas Limited, a convertible floating charge debenture in the amount of $300,000 which is included in the accompanying balance sheet under refundable deposits and investments at the net cost of $159,000.

From the date of incorporation, March 22, 1954, to June 30, 1957 the activities of the subsidiary company, Canex Gas Ltd., were in an exploratory and development stage and all exploration and preproduction expenditures less miscellaneous income received were deferred and are being amortized by a unit of production method based on the estimated recoverable gas reserves of the company at June 30, 1957. Capital expenditures of Canex Gas Ltd. are included in the accompanying consolidated balance sheet in the appropriate classifications under fixed assets.

2. BANK LOANS:

Although the bank loans are subject to call on demand, under the agreed terms of repayment an amount of $356,000 will be repaid within the next twelve months. These loans are secured by certain of the companies' properties and production proceeds.

3. FUNDED DEBT:

Funded debt consists of the following:

	Current portion	Funded debt
Parent company:		
5% Convertible Sinking Fund Debentures, Series A, maturing December 1, 1970, net of $89,000 held in sinking fund account	$239,000	—
Canex Gas Ltd.:		
5% Convertible Sinking Fund Debentures, Series A, maturing July 15, 1971	39,000	111,000
	$278,000	111,000

Series A debentures of the parent company are convertible into shares of the capital stock of the company at the option of the holders at the rate of 33 shares per $500 debenture until their maturity date. Series A debentures of Canex Gas Ltd. are convertible into shares of that company at the rate of 40 shares per $500 debenture until their maturity date. During the year ended April 30, 1970, 5,960 shares of Canex Gas Ltd. were issued upon the conversion of debentures.

4. CAPITAL STOCK:

During the year the company issued the following shares of capital stock:

		Allocation of Consideration		
Number of shares		Total	Capital stock	Contributed surplus
9,800	to employees for $1.53 to $3.70 cash per share	$ 27,580	1,633	25,947
14,900	for 5,960 shares of Canex Gas Ltd. which had been issued upon conversion of $74,500 principal amount of Canex Gas Ltd. debentures	74,500	2,483	72,017
33	upon conversion of $500 principal amount of company's debentures	500	5	495
24,733	. . . .	$102,580	4,121	98,459

The company has reserved the following shares of its capital stock:

31,200	shares in respect of the offer to accept shares of Canex Gas Ltd.
21,615	shares for exercise of the conversion privilege attaching to the company's 5% Convertible Sinking Fund Debentures.
33,600	shares for stock options to employees.
86,415	

Notes to Financial Statements — Continued

The following restricted stock options granted to eight employees were outstanding at April 30, 1970:

		Expiry Date
1,000	shares at $1.53 per share (exercisable before June 8, 1970)	June 8, 1970
14,600	shares at $3.70 per share (exercisable one-fifth each year commencing August 23, 1967 on a cumulative basis)	December 20, 1971
18,000	shares at $7.15 per share (exercisable one-fifth each year commencing February 1, 1969 on a cumulative basis)	May 31, 1973

The trust indenture securing the company's 5% Convertible Sinking Fund Debentures, Series A, places a restriction upon the payment of dividends and upon the redemption or repayment of capital stock.

5. REMUNERATION PAID TO DIRECTORS AND SENIOR OFFICERS:

Remuneration paid during the year to directors and senior officers amounted to $126,000 (1969 $124,000).

6. INCOME TAXES:

For income tax purposes, the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which may exceed the related depletion and depreciation provisions reflected in the accounts. The capital cost allowances claimed are not significantly different from the depreciation provided in the accounts.

Drilling, exploration and lease acquisition costs in excess of taxable income may be carried forward and applied against earnings in future years. At April 30, 1970, no income taxes were payable and the companies were entitled to carry forward expenditures estimated to be as follows:

Drilling, exploration and lease acquisition costs	$2,906,000
Capital cost allowances	2,055,000

The drilling, exploration and lease acquisition costs which may, for income tax purposes, be applied against earnings in future years are subject to a reduction from the payment of an account receivable of $500,000 which arose from sale of property, and will be included in income for tax purposes in 1971.

The Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants has recommended that the income tax allocation method of accounting should be adopted whereby a provision is made for income taxes based on the earnings reported in the accounts. However, management does not believe it is appropriate to provide for income taxes deferred as a result of claims for drilling, exploration and lease acquisition costs, insofar as it presently intends to continue to incur such expenditures and therefore it is not possible to estimate when income taxes will be payable. This view of management conforms with general practice in the oil and gas industry and is accepted by accounting authorities outside Canada.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income taxes of $175,000 ($143,000 in 1969) would have been provided and net income for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately $1,995,000 at April 30, 1970.

7. EARNINGS PER SHARE:

Earnings per share figures are calculated using the weighted average number of shares outstanding during the respective fiscal years. Fully diluted earnings per share are not presented as there would be no material change.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Canadian Export Gas & Oil Ltd. and Subsidiaries as of April 30, 1970 and the consolidated statements of earnings and retained earnings and source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at April 30, 1970 and the results of their operations and the source and disposition of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
May 29, 1970

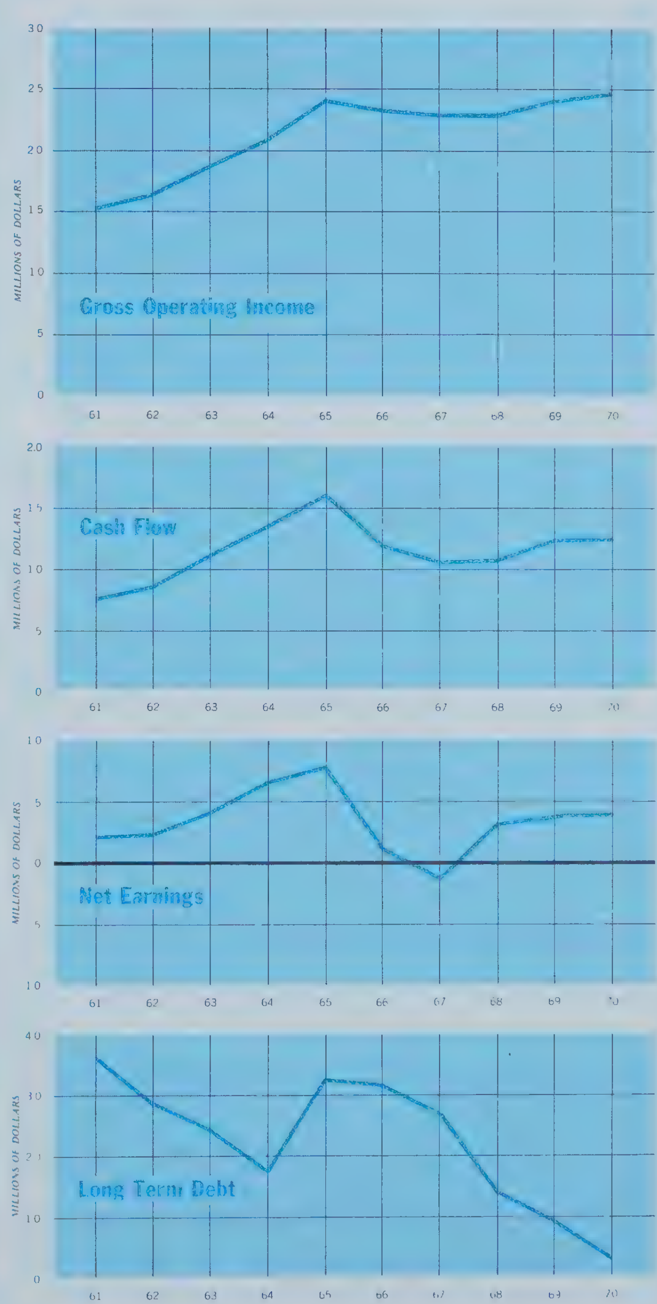
PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

TEN YEAR STATISTICAL SUMMARY / 61-70

(Years ended April 30)

	1970	1969	1968	1967	1966
PRODUCTION:					
Oil—Annual .... Barrels	486,192	440,729	443,029	425,690	403,883
Daily Average .... Barrels	1,332	1,207	1,214	1,166	1,107
Gas—Annual .... Billion Cubic Feet	6.779	6.946	6.562	6.867	7.945
Daily Average .... Million Cubic Feet	19	19	18	19	22
EARNINGS:					
Gross operating income, less royalties paid .... $	2,492,000	2,420,000	2,290,000	2,259,000	2,337,000
Cash flow from operations .... $	1,237,000	1,244,000	1,024,000	1,018,000	1,172,000
Net earnings before depletion and depreciation .... $	758,000	917,000	857,000	493,000	664,000
Net earnings (loss) before extraordinary items .... $	202,000	396,000	300,000	(98,000)	26,000
Net earnings .... $	398,000	396,000	300,000	3,494,000	26,000
OPERATING EXPENSES:					
Production expenses .... $	599,000	540,000	538,000	498,000	518,000
Administrative and general expenses .... $	278.000	253,000	281,000	264,000	224,000
Total .... $	877,000	793,000	819,000	762,000	742,000
CAPITAL STRUCTURE:					
Shareholders' equity .... $	13,307,000	12,807,000	11,694,000	10,976,000	7,250,000
Funded debt .... $	111,000	453,000	707,000	1,033,000	1,284,000
Bank and other loans .... $	142,000	498,000	580,000	1,661,000	1,768,000
(Working capital) or deficit .... $	(174,000)	(535,000)	(765,000)	(1,233,000)	135,000
Total capital invested .... $	13,386,000	13,223,000	12,216,000	12,437,000	10,437,000
Number of shares outstanding	8,166,677	8,141,944	8,059,944	7,919,769	7,828,39[illegible]
SIGNIFICANT RATIOS:					
Ratio of net earnings to gross earnings .... %	8	16	13	—	[illegible]
Cash flow return on capital invested .... %	9	9	8	8	1[illegible]
Net earnings return on capital invested .... %	2	3	3	—	—
Ratio of shareholders' equity to total capital invested %	99	97	96	88	69
Ratio of operating expenses to gross earnings .... %	35	33	36	34	32
Net book value of assets .... Per share	$1.64	$1.62	$1.52	$1.57	$1.3[illegible]
Cash flow .... Per share	15¢	15¢	13¢	13¢	1[illegible]
Net earnings before extraordinary items .... Per share	2¢	5¢	4¢	—	—
Net earnings .... Per share	5¢	5¢	4¢	44¢	—
WELLS:					
Oil wells (net)	75	74	73	73	7[illegible]
Gas wells (net)	75	75	66	65	8[illegible]
Royalty interest wells (gross)	224	223	223	220	21[illegible]
LAND HOLDINGS:					
Gross acreage	6,530,532	5,365,050	2,158,546	2,221,383	2,698,34[illegible]
Net acreage	2,727,751	3,263,879	702,530	1,104,868	2,042,31[illegible]
OWNERS AND EMPLOYEES:					
Number of shareholders	10,433	9,134	8,992	8,586	7,79[illegible]
Number of employees	32	33	33	33	3[illegible]

1965	1964	1963	1962	1961
414,111	382,515	414,404	360,027	381,717
1,135	1,048	1,135	986	1,046
8.710	7.466	5.752	5.523	4.397
24	20	16	15	12
2,397,000	2,102,000	1,915,000	1,694,000	1,539,000
1,588,000	1,395,000	1,126,000	884,000	792,000
1,344,000	1,180,000	990,000	783,000	704,000
818,000	678,000	488,000	267,000	223,000
818,000	1,220,000	488,000	267,000	223,000
438,000	401,000	418,000	377,000	303,000
135,000	132,000	159,000	204,000	158,000
573,000	533,000	577,000	581,000	461,000
7,281,000	6,464,000	5,243,000	4,756,000	4,176,000
1,535,000	1,784,000	2,033,000	2,279,000	2,510,000
1,667,000	226,000	537,000	712,000	1,136,000
196,000	28,000	385,000	418,000	428,000
0,679,000	8,502,000	8,198,000	8,165,000	8,250,000
7,828,394	7,828,394	7,828,394	7,828,394	7,628,394
34	32	25	16	14
15	16	14	11	10
8	8	6	3	3
68	76	64	58	51
24	25	30	34	30
$1.36	$1.09	$1.05	$1.04	$1.08
20¢	18¢	14¢	11¢	10¢
10¢	9¢	6¢	3¢	3¢
10¢	16¢	6¢	3¢	3¢
66	61	61	64	63
77	75	77	73	68
214	214	205	200	166
2,831,728	893,331	4,335,811	4,339,891	4,373,945
2,227,392	306,901	324,128	322,845	316,645
5,022	5,250	5,521	5,413	5,024
38	32	31	35	41



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INTERIM REPORT

OCTOBER 31st-1970

CANADIAN EXPORT GAS & OIL LTD.

CANADIAN EXPORT GAS & OIL LTD. AND SUBSIDIARIES

CONDENSED STATEMENT OF EARNINGS

	Quarter Ended October 31 1970	Quarter Ended October 31 1969	Six Months Ended October 31 1970	Six Months Ended October 31 1969
Crude oil and natural gas sales, less royalties	$481,900	$595,100	$1,030,700	$1,074,500
Royalty income	45,500	41,700	85,500	89,400
Sulphur sales	2,500	11,100	11,400	22,100
	529,900	647,900	1,127,600	1,186,000
Production, administrative and general expenses	228,700	216,400	421,300	403,000
NET OPERATING PROFIT	301,200	431,500	706,300	783,000
Rentals, interest and miscellaneous — net	103,400	106,200	171,500	173,600
CASH FLOW	197,800	325,300	534,800	609,400
Dry holes and abandoned properties	100	62,800	42,700	64,400
NET EARNINGS BEFORE PROVISIONS	197,700	262,500	492,100	545,000
Provision for depletion and depreciation	135,700	142,500	282,100	272,000
NET EARNINGS before extraordinary item	62,000	120,000	210,000	273,000
Non-recurring gain on sale of property	218,000	—	218,000	195,800
NET EARNINGS	$280,000	$120,000	$ 428,000	$ 468,800

PER SHARE	1970	1969
Cash flow	6¢	7¢
Net earnings before extraordinary item	2¢	3¢
Net earnings	5¢	6¢

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

	Six Months Ended October 31 1970	Six Months Ended October 31 1969
SOURCE OF FUNDS:		
Cash Flow	$ 534,800	$609,400
Proceeds from sale of property	297,400	200,000
Proceeds from sale of capital stock	1,500	19,900
Increase in long term debt	413,200	—
TOTAL FUNDS EMPLOYED	$1,246,900	$829,300
DISPOSITION OF FUNDS:		
Exploration:		
Land acquisition and exploration surveys	$ 220,000	$163,400
Wildcat and stepout drilling	17,400	120,800
Development and Other Expenditures:		
Drilling and equipment of wells	106,300	83,300
Gas gathering systems, plants and miscellaneous — net	675,200	78,400
Long term debt reduction	—	181,800
TOTAL FUNDS USED	$1,018,900	$627,700
Increase in working capital	228,000	201,600
	$1,246,900	$829,300

The above statements have not been audited and are subject to year end adjustment.

LITHOGRAPHED IN CANADA

CANADIAN EXPORT GAS & OIL LTD.

TO THE SHAREHOLDERS

The Company is approaching a period of significant increases in both liquid hydrocarbons and gas production.

Discovery of the Strachan gas field, one of the largest in western Canada, was made in 1967. A $21 million plant is scheduled to go on stream December 15, 1970. First returns from this operation will begin to show in the New Year. Successful operation of the plant according to its design will increase your Company's daily average gas production by approximately 50%, the daily average liquid hydrocarbons by approximately 20% and sulphur production by approximately 400%, as compared to production averages for the last fiscal year.

Pipeline connection to the Meekwap oil field, which to date has been shut in, will further augment the Company's oil production. The extent of this increase is dependent upon results of further development and step-out drilling currently planned.

Production and Development

Oil production for the six month period was 227,518 barrels compared to 238,369 barrels in the comparable period of last year.

Gas production for the six month period was 2.812 billion cubic feet compared to 3.112 billion cubic feet in the same period of 1969. The decrease was due to reduced pipeline requirements during the summer months, as well as declining production from certain of the older fields.

There has been no production from or further development of the Meekwap oil field. Lack of all-weather roads has prohibited production from the completed wells. A pipeline connection to Virginia Hills facilities is now being completed, which will solve the problem of oil transport and hasten development of the field.

CEGO's participation interest in the South Kaybob field as a result of further drilling since the original formation of the Unit approximately two years ago has been reduced from 0.68% to .03%. This will reduce CEGO's net condensate production from this field by approximately 60-70 barrels per day. This reduction of interest will involve an immediate reimbursement to CEGO of approximately $250,000 representing overpayment of its share of the original capital expenditures.

	Six Months Ended October 31 1970	1969
Oil Production – Bbls.	227,518	238,369
Average per day – Bbls.	1,237	1,295
Gas Production – BCF	2.812	3.112
Average per day – Mmcf	15	17

Exploration and Land

Brule — The Company is participating to the extent of 12½% in the cost of a 9,600 foot Devonian test well in the Brule area of the Foothills belt of southwest Alberta. The well, Pacific et al Brule 10-12-50-27 W5 was drilling at 5,784 feet at the end of October. Upon completion the Company will earn a 6¼% net interest in 26,880 acres of Petroleum and Natural Gas Reservation lands.

Meekwap — The Company is paying 22.2% of the cost of a well in order to earn an 11.1% interest in 3,840 acres. This well will offset the recently acquired block of 1,280 acres in which the Company has a 22.2% interest. This well is scheduled to commence not later than December 15, 1970.

Lochend — In the Lochend area 25 miles northwest of Calgary, the Amoco et al Lochend 7-30-28-3 W5 test has run casing to test an upper zone after drilling to a total depth of 12,830 feet in the Devonian. CEGO has a 12½% interest in this well and the block of 1,280 acres on which the well was drilled.

Beaufort Sea — Marine seismic surveys offshore from the Mackenzie Delta and the Atkinson Point oil discovery, have been completed and the data are now being processed and interpreted. This program covered a reconnaissance grid over the Company's permits in Liverpool Bay, with a tie-line to its permits north of Atkinson Point. The Company has a 50% interest in 824,630 acres.

East Coast — Labrador — Approximately 100 miles reconnaissance seismic survey has been completed over certain of the Company's Labrador offshore permits. The Company has a 50% interest in 640,950 acres. Data from this survey are being processed and compiled.

Great Bear Lake — Operational problems prevented the contractor from proceeding with the marine seismic program planned for this acreage. This program is now scheduled for next summer. Consideration is also being given to some on-shore seismic work this coming winter in this area. The general area is expected to be the scene of some wildcat drilling this winter. The Company has 33⅓% interest in 861,351 acres.

Financial and Corporate

The Company's gross income for the six months ended October 31, 1970, was $1,127,600 compared with $1,186,000 for the same period last year. Cash flow was down 12% to $534,800 and net earnings, excluding non-recurring gains, were $210,000 compared with $273,000 last year. The reduced income was primarily due to lower gas production. Including non-recurring gains net earnings were $428,000 compared with $468,800 last year.

The 5% Convertible Sinking Fund Debentures, Series "A", issued under the Company's former name, Canadian Prospect Ltd., mature on December 1, 1970. These debentures may be redeemed at any branch of the Royal Bank of Canada.

A. F. Beck

A. F. BECK,
President

November 26, 1970

Additional copies of this report may be obtained from the Company's Head Office, 736 - 8th Avenue S.W., Calgary 2, Alberta. The Company does not make any charge for these copies, nor does it accept any distribution charges from nominees or agents.